

REPORT OF EXAMINATION
OF THE
FIDELITY NATIONAL TITLE INSURANCE COMPANY
AS OF
DECEMBER 31, 2006

Participating State
and Zone:

California

Filed June 20, 2008

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Los Angeles, California
May 23, 2008

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition Subcommittee
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Honorable Morris Chavez
Secretary, **Zone IV-Western**
Superintendent of Insurance
New Mexico Insurance Division
Santa Fe, New Mexico

Honorable Steve Poizner
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman, Secretary and Commissioner:

Pursuant to your instructions, an examination was made of the

FIDELITY NATIONAL TITLE INSURANCE COMPANY

(hereinafter also referred to as the Company) at the primary location of its books and records and main administrative office located at 601 Riverside Avenue, Jacksonville, Florida 32204. The Company's statutory home office is located at 4050 Calle Real, Santa Barbara, California 93110.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2003. This examination covers the period from January 1, 2004 through December 31, 2006. The examination was made pursuant to the National Association of Insurance Commissioners' plan of examination. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2006, as deemed necessary under the circumstances.

This examination was conducted with the Company's two California affiliates, Security Union Title Insurance Company and Ticor Title Insurance Company.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; business in force by states; loss experience; escrow accounts; and sales and advertising.

COMPANY HISTORY

The Company was re-domesticated to the State of California from Arizona on December 31, 1996 as a wholly-owned subsidiary of Fidelity National Financial, Inc. (FNF), a Delaware corporation.

On July 3, 2004, the California Department of Insurance (CDI) approved the merger, effective December 31, 2003, of the Company with its affiliate, Fidelity National Title Insurance Company of New York (a New York domiciled insurer), with the Company being the surviving entity. The merger resulted in an increase to the Company's surplus of \$78,998,117 as of December 31, 2003. Approval of the merger was also obtained from the New York Department of Insurance.

On August 5, 2004, Fidelity Tax Service, a subsidiary of the Company, was merged into the Company.

On June 28, 2005, following approval by the CDI, the Company sold 100% of the stock of its subsidiary Fidelity National Insurance Company, a California domiciled property and casualty insurer, to FNF for \$90,000,000.

On September 27, 2005, FNF contributed the stock of the Company to Chicago Title and Trust Company (CTT). Simultaneously the stock of CTT was contributed to Fidelity National Title Group, Inc. (FNTG).

On October 17, 2005, FNF distributed 17.5% of FNTG's common stock to current shareholders of FNF, while retaining ownership of the remaining 82.5% of FNTG's common stock.

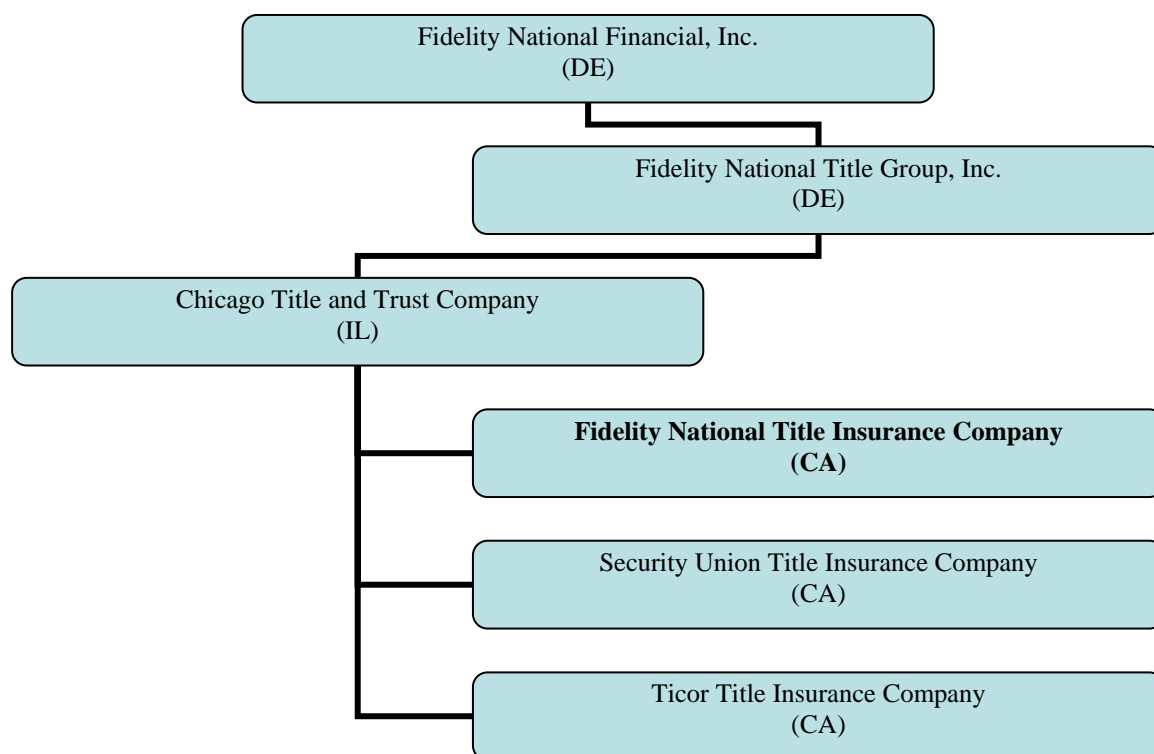
During 2006, FNF completed a corporate restructuring resulting in two separate publicly traded companies, Fidelity National Information Services and Fidelity National Financial, Inc. The restructuring was finalized on November 9, 2006.

During the examination period, the Company declared and paid the following ordinary dividends to its parent:

<u>Year</u>	<u>Amount</u>
2004	\$ 85,556,001
2005	42,500,000
2006	<u>116,100,000</u>
Total	<u>\$244,156,001</u>

MANAGEMENT AND CONTROL

The following abridged organizational chart, which is limited to the Company's parent along with its subsidiary insurance companies, depicts the Company's relationship within the holding company system:



All ownership is 100%.

Management of the Company is vested in a three-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2006 follows:

Directors

Name and Residence

William Patrick Foley, II (*)
Ponte Vedra Beach, Florida

Anthony John Park
Jacksonville, Florida

Raymond Randall Quirk

Principal Business Affiliation

Chairman and Chief Executive Officer
Fidelity National Financial, Inc.

Executive Vice President and Chief Financial
Officer
Fidelity National Title Group

Chief Executive Officer

Name and ResidencePrincipal Business Affiliation

Jacksonville, Florida

Fidelity National Title Group

(*) resigned June 15, 2007, replaced by Alan Lynn Stinson

Principal OfficersNameTitle

Raymond Randall Quirk

President and Chief Operating Officer

Christopher Abbinante

President, Eastern Operations

Mark D'Agostino

President, County Manager

Bryant Robert Evans

President and County Manager

Cynthia Lynn Fried

President and County Manager

R. Dale Hastie

President and County Manager

Roger Scott Jewkes

President, Western Operations

Erika Meinhardt

President, National Agency Operations

Paul Douglas DeFalco

Executive Vice President and Regional
Manager

Edward John Dewey

Executive Vice President and Chief
Administrative Officer

Thomas Edgar Evans, Jr.

Executive Vice President and Regional
Manager

Joseph William Grealish

Executive Vice President and Regional
Manager

Maxwell Edward Hanney

Executive Vice President

James Russel Herleman

Executive Vice President

James Harlow Kay, Jr.

Executive Vice President and Regional
Manager

Kevin Donald Lutes

Executive Vice President

Anthony John Park

Executive Vice President and
Chief Financial Officer

Peter Tadeusz Sadowski

Executive Vice President

Alan Lynn Stinson

Executive Vice President

Darryl James Tyson

Executive Vice President

Gary Robert Urquhart

Executive Vice President and General Counsel

Charles Hyman Wimer

Executive Vice President and
Assistant Secretary

Edward Andersen

Senior Vice President

Kenneth J. Aran

Senior Vice President and Claims Counsel

Management Agreements

Master Services Agreement: On March 12, 2003, the Company and certain affiliates entered into a Master Services Agreement with its ultimate parent, Fidelity National Financial, Inc. (FNF). Under the terms of the agreement, the Company receives from affiliates the following services: underwriting, claims settlement, payroll, legal, advertising, investment services, administrative and personnel services, and information technology. Compensation for services is limited to reimbursement of actual expenses and is payable to the affiliates providing the services. For 2004, 2005 and 2006, amounts paid by the Company for services received amounted to \$170,719,385, \$309,392,528, and \$289,666,917, respectively. The California Department of Insurance (CDI) approved this agreement on March 11, 2003.

Personal Property Lease Agreement: The Company and certain affiliates are parties to a Personal Property Lease Agreement with its affiliate, Fidelity Assets Management, Inc. (FAMI), effective April 1, 2002. Under the terms of the agreement, the Company and certain affiliates lease personal property from FAMI for title research. The allocation of the lease payments between the Company and its affiliates is based on the cost of the personal property used. For 2004, 2005 and 2006, the Company paid \$3,238,216, \$5,725,061, and \$5,608,648, respectively. This agreement was approved by the CDI on December 21, 2001.

Tax Sharing Agreement: The Company and its affiliates are parties to a Tax Sharing Agreement with FNF and its subsidiaries, effective August 20, 2004. Under the terms of the agreement, the allocation of taxes is as if each entity was filing its own separate income tax return. The tax settlement with FNF is made within thirty days of the filing of the consolidated return. The amount of taxes paid by the Company for 2004, 2005 and 2006, amounted to \$35,388,017, \$15,138,745, and \$38,389,078, respectively. The Company submitted this agreement for approval to the CDI on May 14, 2008. The agreement is being reviewed by the CDI.

CORPORATE RECORDS

California Insurance Code (CIC) Section 735 states that the Company must inform the board members of the receipt of the examination report. The board should be informed of the report both in the form first formally prepared by the examiners and in the form as finally settled and officially filed by the commissioner. The board must also enter that fact in the board minutes. These requirements were not documented in the Company's board minutes. It is recommended that the Company implement procedures to comply with CIC Section 735.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2006, the Company was licensed to transact title insurance business. The Company also provides escrow and other services to real estate property buyers and mortgage lenders. The Company is licensed in all states except Iowa. The Company is also licensed in the District of Columbia.

The Company issues title insurance policies through direct operations, a network of both affiliated and non-affiliated title agents, and underwritten title companies.

During 2006, the Company wrote approximately \$1.5 billion of direct premiums. Of the direct premiums written, \$345.4 million (22.7%) was written in California, \$211.1 million (13.9%) was written in Florida, \$169.9 million (11.2%) was written in New York and the remaining premiums were written in other states.

GROWTH OF COMPANY

The Company has experienced a considerable decrease in growth after the examination period as shown in the following schedule:

Year or Quarter	Direct Premiums Written	Net Operating Gain or (Loss)	Net Income
2004	\$ 1,614,860,056	\$ 53,183,978	\$ 54,726,896
2005	1,738,826,260	56,030,701	139,099,895
2006	1,519,950,497	86,713,629	98,307,375
2007	1,274,082,208	42,318,485	58,097,256
2008 (1 st Qtr)	245,608,837	(2,304,430)	4,342,344

The decline in the Company's growth is attributable to the state of the title insurance industry, which is susceptible to economic cycles and financial impacts relevant to the real estate market. In the past, the Company has benefited from the boom in the real estate market with a sound volume of sale transactions and refinancing activity. However, under the current financial markets, a tightening has occurred in response to the subprime lending issue and the increase in foreclosures which has resulted in a slowdown in the mortgage and real estate markets. The slowdown has resulted in a dampening effect on the Company's operations.

In response to market conditions, the Company has sought to reduce its head count as activity in its title segment declined.

REINSURANCE

Assumed

The Company assumes a relatively small amount of business as compared to its direct writings (less than one percent). The majority of the assumed transactions are on a facultative basis.

Ceded

The Company also cedes a relatively small amount of business as compared to its direct writings (less than one percent). The majority of the ceded reinsurance premium resulted from facultative transactions.

The Company is party to a Title Excess of Loss Reinsurance Contract entered into by its ultimate parent, Fidelity National Financial, Inc. (FNF) with various reinsurers. Coverage also applies to other subsidiaries and affiliates of FNF. The contract provides coverage on a loss occurrence basis for the Company and its affiliates regardless of the number of policies contributing to the ultimate net loss. The following is a summary of the reinsurance contract as of December 31, 2006:

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
1 st Excess of Loss	<u>Lloyds Underwriter Syndicates: (*)</u> Various Syndicates – 63% <u>Bermuda Markets: (*)</u> AXIS Specialty Limited – 16% IPCRe Limited – 8.5% XL Re Ltd – 2.5% <u>Other Foreign: (*)</u> Muchener Ruckversicherungs – 10%	\$10 million	\$10 million
2 nd Excess of Loss	<u>Lloyds Underwriter Syndicates: (*)</u> Various Syndicates – 48% <u>Bermuda Markets: (*)</u> AXIS Specialty Limited – 15% IPCRe Limited – 8% Montpelier Reinsurance Ltd – 5% XL Re Ltd – 4% <u>Other Foreign: (*)</u> Muchener Ruckversicherungs – 10% Aspen Insurance UK Limited – 10%	\$20 million	\$20 million

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
3 rd Excess of Loss	<u>Lloyds Underwriter Syndicates: (*)</u> Various Syndicates – 38% <u>Bermuda Markets: (*)</u> AXIS Specialty Limited – 20% IPCRe Limited – 10% Montpelier Reinsurance Ltd – 7.5% XL Re Ltd – 7% <u>Other Foreign: (*)</u> Muchener Ruckversicherungs – 10% Various Others – 7.5%	\$20 million	\$20 million

(*) Reinsurance program utilizes the services of Guy Carpenter & Company, Inc., as a reinsurance intermediary.

ACCOUNTS AND RECORDS

This examination experienced difficulties obtaining certain supporting documentation for the Company's information systems. While the Company provided timely information in response to most routine requests, certain requests for various user listings, evidence of testing and monitoring, documentation of approvals and user access restrictions were delayed. It is recommended that the Company maintain documentation to support its controls over its information systems and have it easily accessible for future review.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2006

Underwriting and Investment Exhibit for the Year Ended December 31, 2006

Reconciliation of Surplus as Regards Policyholders
from December 31, 2003 through December 31, 2006

Statement of Financial Condition
as of December 31, 2006

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 684,721,446	\$	\$ 684,721,446	
Stocks:				
Common stocks	59,588,671		59,588,671	
Mortgage loans on real estate:				
First liens	1,719,766	5,819	1,713,947	
Other than first liens	1,158,055	1,158,055		
Real estate: Properties held for sale	605,858	239,950	365,908	
Cash, cash equivalents and short-term investments	61,790,843		61,790,843	(1)
Other invested assets	48,073,229	13,747,231	34,325,998	
Receivables for securities	4,895,827		4,895,827	
Title plant	24,919,508	7,006,108	17,913,400	
Investment income due and accrued	9,085,095		9,085,095	
Premiums and considerations:				
Uncollected premiums and agents' balances in course of collection	48,483,955	33,717,362	14,766,593	
Net deferred tax asset	39,750,819	31,473,446	8,277,373	
Electronic data processing equipment and software	17,270		17,270	
Furniture and equipment	62,493	62,493		
Receivables from parent, subsidiaries and affiliates	3,723,434		3,723,434	
Aggregate write-ins for other than invested assets	<u>42,745,041</u>	<u>42,745,041</u>		
Total assets	<u>\$1,031,341,310</u>	<u>\$ 130,155,505</u>	<u>\$ 901,185,805</u>	
<u>Liabilities, Surplus and Other Funds</u>				
Known claims reserve			\$ 106,059,423	(2)
Statutory premium reserve			413,184,437	(2)
Other expenses			41,760,268	
Taxes, licenses and fees			6,377,490	
Current federal and foreign income taxes			30,301,897	
Amounts withheld or retained by company for account of others			177,034	
Payable to parent, subsidiaries and affiliates			702,147	
Aggregate write-ins for liabilities			<u>28,633,497</u>	
Total liabilities			627,196,193	
Common capital stock		\$ 35,826,800		
Gross paid-in and contributed surplus		141,288,233		
Unassigned funds (surplus)		<u>96,874,579</u>		
Surplus as regards policyholders			<u>273,989,612</u>	
Total liabilities, surplus and other funds			<u>\$ 901,185,805</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2006

Statement of Income

Operating Income

Title insurance and related income:	
Title insurance premiums earned	\$ 1,491,738,711
Escrow and settlement services	36,406,128
Other title fees and service charges	<u>85,387,065</u>
Total Operating Income	1,613,531,904

Deductions:	
Losses and loss adjustment expenses incurred	\$ 70,996,930
Operating expenses incurred	<u>1,455,821,345</u>
Total operating deductions	<u>1,526,818,275</u>
Net operating gain	86,713,629

Investment Income

Net investment income earned	\$ 46,889,960
Net realized capital gains	<u>4,073,215</u>
Net investment gain	<u>50,963,175</u>
Net income before federal income taxes	137,676,804
Federal and foreign income taxes incurred	<u>39,369,429</u>
Net income	<u>\$ 98,307,375</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2005	\$ 293,247,411
Net income	\$ 98,307,375
Net unrealized capital losses	(10,391,996)
Change in net deferred income tax	944,768
Change in nonadmitted assets	7,982,054
Dividends to stockholders	<u>(116,100,000)</u>
Change in surplus as regards policyholders for the year	<u>(19,257,799)</u>
Surplus as regards policyholders, December 31, 2006	<u><u>\$ 273,989,612</u></u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2003 through December 31, 2006

Surplus as regards policyholders, December 31, 2003,
per Examination \$ 159,931,431

	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>
Net income	\$ 292,134,166	\$
Net unrealized capital losses		37,954,386
Change in net deferred income tax	2,445,238	
Change in nonadmitted assets		28,257,135
Cumulative effect of changes in accounting principles		5,729,109
Dividends to stockholders		244,156,001
Change in surplus due to merger (*)	78,998,117	
Aggregate write-ins for gains in surplus (**)	<u>56,577,291</u>	<u> </u>
Totals	<u>\$ 430,154,812</u>	<u>\$ 316,096,631</u>
Net increase in surplus as regards policyholders for the examination		<u>114,058,181</u>
Surplus as regards policyholders, December 31, 2006, per Examination		<u>\$ 273,989,612</u>

(*) This is the result of the Company's merger with Fidelity National Title Insurance Company of New York (FNTICNY), with the Company being the surviving entity. The amount represents the admitted surplus of FNTICNY at December 31, 2003.

(**) This gain in surplus is the result of the Company correcting two errors during 2005. The first correction was related to an error in accounting for a branch operation of \$27,734,326 and the second correction was related to an error in presentation of the change in non-admitted deferred tax assets of \$28,842,965.

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Cash, Cash Equivalents and Short-Term Investments

A review of the above captioned accounts disclosed that the Company maintains a portion of its short-term investments in Blackrock Provident Institutional Funds (Blackrock). Blackrock, located in Delaware, is not a qualified custodian or sub-custodian as defined under California Insurance Code (CIC) Section 1104.9. It is recommended that the Company comply with CIC Section 1104.9 by maintaining its assets in California with a qualified custodian.

(2) Known Claims Reserve and Statutory Premium Reserve

A Casualty Actuary from the California Department of Insurance evaluated the Company's reserves for known claims and statutory premium. The reserves were determined to be reasonable.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Corporate Records (Page 7): It is recommended that the Company implement procedures in its board meetings to ensure compliance with CIC Section 735.

Accounts and Records (Page 10): It is recommended that the Company maintain documentation to support its controls over its information systems and have it easily accessible for future review.

Comments on Financial Statement Items - Cash, Cash Equivalents and Short-Term Investments (Page 14): It is recommended that the Company comply with CIC Section 1104.9.

Previous Report of Examination

Intercompany Agreements (Page 8): It was recommended that the Company follow up with the California Department of Insurance (CDI) to expedite the approval of the Master Services Agreement. This Agreement was approved by the CDI on March 11, 2003.

Personal Property Lease Agreement (Page 8): It was recommended that the Company file this Agreement with the CDI. The Personal Property Lease Agreement was approved by the CDI on December 21, 2001.

Federal Income Tax Allocation Agreement (Page 9): It was noted that the Company did not obtain the CDI's approval for the tax allocation agreement. The Company submitted the agreement to the CDI on May 14, 2008.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

_____/S/_____
Gregory J. Lieber, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California